Information

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Canada's Debt Challenge

What is the difference between the deficit and the debt?

The deficit is the amount by which government spending exceeds its revenues in any given year. The public debt is the total of all past deficits and surpluses since Confederation. The federal government has been adding to the debt – that is, running deficits – every year since 1969-70.

How big is the debt?

Canada's federal debt totalled $583 billion at the end of March 1997 (the fiscal year or accounting period is from April 1 to March 31). Interest payments on the debt totalled $45 billion in 1996-97.

The best way to measure our debt burden is in relation to the size of the economy or gross domestic product (GDP) because this indicates our capacity to manage the debt. In 1996-97, the size of the federal debt in relation to GDP – the debt-to-GDP ratio – fell to 73.1 per cent, the first significant decline after 25 years of virtually uninterrupted increases.

What is marketable debt?

Marketable debt is issued by the government to financial markets in the form of bonds, Treasury bills and other debt instruments. Marketable debt accounts for about 80 per cent or $477 billion of the federal government's total debt. The government also issues retail debt such as Canada Savings Bonds, and it has non-market debt that is owed to internal government sources, such as public service pension plans.

Why do we need to reduce Canada's debt burden?

The current high debt-to-GDP ratio leavings Canada's fiscal situation extremely vulnerable to economic shocks such as increased interest rates or an economic slowdown. This vulnerability means that a sustained decline in the debt-to-GDP ratio in the coming years will be necessary if the federal government is to buffer the economy from the negative effects of future economic downturns.

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A high debt-to-GDP ratio restrains economic efficiency and hinders growth, thus adversely affecting the well-being of all Canadians. Moreover, high levels of debt tend to push up interest rates which discourage investment needed to sustain growth. Bringing the debt-to-GDP ratio down, therefore, is key to ensuring sustained long-term growth and job creation.

In addition, reducing the debt-to-GDP ratio will ensure that the legacy left to future generations is one of sound social and economic programs, not one of high debt and high taxes.

What is the government doing to achieve this?

The government has reduced the deficit from $42 billion in 1993-94 to $8.9 billion in 1996-97 – and the deficit will be eliminated by no later than next fiscal year, 1998-99.

In 1996-97, the government did not have to borrow new money on financial markets to pay for ongoing programs or for interest on the debt. This is the first time in 27 years the government has been in this position. Moreover, in the current fiscal year, the government has actually been paying down marketable debt.

The current level of debt is too high and must be reduced to a more manageable level. The government is committed to a permanent decline in the debt-to-GDP ratio.